

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Tuscola Area Airport Authority	County Tuscola
Fiscal Year End June 30, 2007	Opinion Date October 31, 2007	Date Audit Report Submitted to State November 9, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

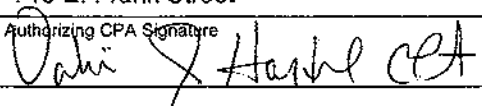
YES NO

Check each applicable box below. (See instructions for further detail.)

- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
- ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
- ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
- ☒ ☐ The local unit has adopted a budget for all required funds.
- ☒ ☐ A public hearing on the budget was held in accordance with State statute.
- ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
- ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
- ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
- ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
- ☐ ☒ The local unit is free of repeated comments from previous years.
- ☒ ☐ The audit opinion is UNQUALIFIED.
- ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
- ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
- ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tuckey, Bernhardt & Doran, P.C.		Telephone Number (989) 673-3137	
Street Address 715 E. Frank Street		City Caro	State MI
		Zip 48723	
Authorizing CPA Signature 		Printed Name Valerie J. Hartel, CPA	
		License Number 1101015523	

**TUSCOLA AREA AIRPORT AUTHORITY**

Caro, Michigan

Report on Financial Statements  
Period Ended June 30, 2007

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Gary R. Anderson, CPA  
Jerry J. Bernhardt, CPA  
Thomas B. Doran, CPA

Robert L. Tuckey, CPA  
Valerie Jamieson Hartel, CPA  
Jamie L. Peasley, CPA

October 31, 2007

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Tuscola Area Airport Authority  
Caro, MI 48723

We have audited the basic financial statements of the Tuscola Area Airport Authority (the "Authority") as of and for the year ended June 30, 2007, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2007 and the changes in its' financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2007, on our consideration of Tuscola Area Airport Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis information on pages *i* through *vii*, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion it.

Board of Directors  
Tuscola Area Airport Authority  
October 31, 2007

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Tuscola Area Airport Authority's basic financial statements. The supplementary information is presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Anderson, Tuckey, Bernhardt & Doran, P.C.*

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS



**Tuscola Area Airport Authority**  
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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Tuscola Area Airport Authority Management's Discussion and Analysis For the Year Ended June 30, 2007**

The following management's discussion and analysis (MD&A) of the Tuscola Area Airport Authority's activities is intended to provide an overview of the Authority's financial condition. The information presented in this management discussion and analysis should be considered in conjunction with the statement of net assets, the statement of revenue, expenses, and changes in net assets, the statement of cash flows, and other statistical information contained in this report.

#### **FINANCIAL OPERATIONS HIGHLIGHTS:**

- Operating Revenues decreased due to lower sales of aviation fuel. The hangar rental revenue has decreased, but the hangar concession agreement has made operating revenue largely unchanged from 2006
- Salaries increased 3.04% overall from \$12,600 for 2005-06 to \$12,995 in 2006-07.
- Operating Expenses not including depreciation decreased due to lower purchases of fuel related to lower sales of aviation fuel. A decrease in contracted services and operation supplies led to an overall decrease in operating expenses.

#### **FINANCIAL OPERATIONS OVERVIEW:**

The Tuscola Area Airport Authority's goal to improve airport facilities and services is being met by the Airport Authority's objective to increase traffic into the airport to generate growth and to make further infrastructure improvements, so as to improve services to the flying public and increase economic development in the local area.



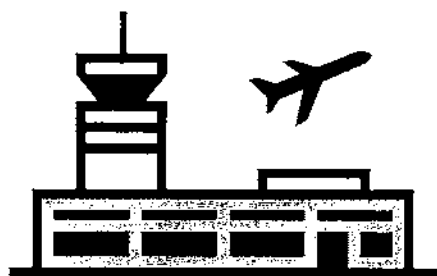
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## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

### **FINANCIAL POSITION SUMMARY**

A condensed summary of the Authority's changes in net assets for the year ended June 30, 2006 and June 30, 2007 is presented as follows:

	<u>2006</u>	<u>2007</u>
<b>Assets</b>		
Current	\$ 38,667	\$ 106,658
Noncurrent	<u>2,962,185</u>	<u>3,453,758</u>
Total Assets	\$ <u>3,000,852</u>	\$3,560,416
<b>Liabilities</b>		
Current	\$ 38,828	38,752
Noncurrent	<u>87,485</u>	<u>51,675</u>
Total Liabilities	\$ <u>126,313</u>	<u>\$90,427</u>
<b>Net Assets</b>		
Invested in Capital	2,840,450	\$3,366,273
Unrestricted	<u>34,089</u>	<u>103,716</u>
Total Net Assets	2,874,539	3,469,989
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<u><b>\$3,000,852</b></u>	<u><b>\$3,560,416</b></u>



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## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

### **SUMMARY OF CHANGES IN NET ASSETS**

A condensed summary of the Airport Authority's changes in net assets for the years ended June 30, 2007 and June 30, 2006 is presented below as follows:

	<b><u>2007</u></b>	<b><u>2006</u></b>
Operating revenue	\$ 118,043	\$120,134
Operating expenses	<u>253,891</u>	<u>243,936</u>
Operating loss	(135,848)	(123,802)
Non-Operating Revenue (Expenses)		
Total Non-Operating Revenue (Expenses)	<u>62,461</u>	<u>491,173</u>
Net Income (Loss) – Before capital contributions	(73,387)	367,361
Capital Contributions	<u>668,837</u>	<u>116,982</u>
Net Income (Loss)	\$ <u>595,450</u>	\$ <u>484,353</u>



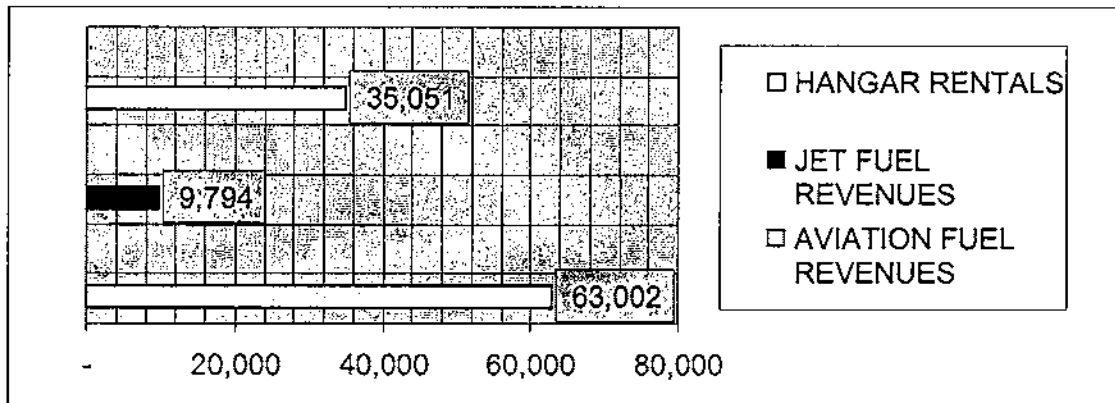


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## Revenues

The following chart depicts the Tuscola Area Airport Authority's major operating revenue categories and their relation to the total operating expense for the year ending June 30 as presented below:

<b>\$63,002</b>	<b>AVIATION FUEL SALES</b>
<b>9,794</b>	<b>JET FUEL SALES</b>
<b><u>35,051</u></b>	<b>HANGAR RENTALS</b>
	<b>TOTAL OPERATING</b>
<b>\$107,847</b>	<b>REVENUES</b>



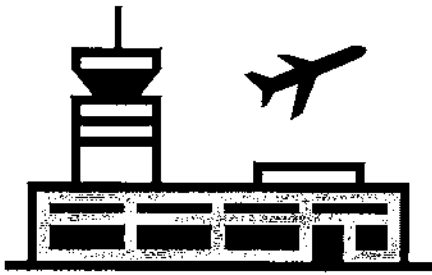


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## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital assets consist of land, land improvements buildings, equipment and the jet fuel tank. Capital assets have increased by \$638,710 relating to taxiway extension land improvement and a \$4,075 improvement to buildings at the Tuscola Area Airport.



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## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Expenses

The following chart depicts the Tuscola Area Airport Authority's major operating expense categories excluding depreciation and their relation to the total operating expense for the year ending June 30, 2006 and June 30, 2007 as presented below:

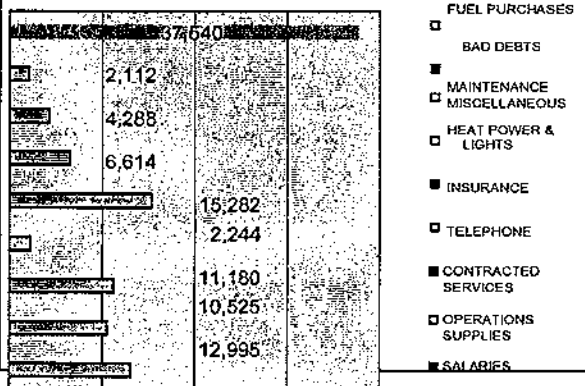
#### OPERATING EXPENSES AS OF 6/30/07

SALARIES ELECTED & APPOINTED	\$ 12,995
OPERATIONS SUPPLIES	10,525
CONTRACTED SERVICES	11,180
TELEPHONE	2,244
INSURANCE	15,282
HEAT, POWER & LIGHTS	6,614
MAINTENANCE & MISCELLANEOUS	4,288
BAD DEBTS	2,112
FUEL PURCHASES	<u>37,440</u>
TOTAL OPERATING EXPENSES	\$102,680

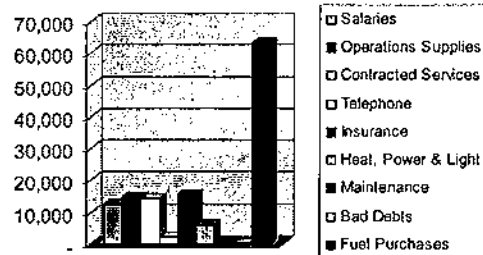
#### OPERATING EXPENSES AS OF 6/30/06

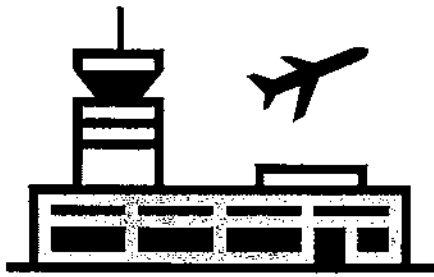
Salaries	12,600
Operations Supplies	14,686
Contracted Services	14,427
Telephone	2,253
Insurance	15,425
Heat, Power & Light	6,255
Maintenance	598
Bad Debts	305
Fuel Purchases	63,225
Total Operating Expenses	129,774

#### TAAA OPERATING EXPENSES



#### OPERATING EXPENSES 6-30-06





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## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

### **FINANCIAL STATEMENTS**

Tuscola Area Airport Authority's financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board. The Authority accounts for its activity in a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when paid. Capital Assets are depreciated (except land) over their useful lives.

### **CONTACTING THE TUSCOLA AREA AIRPORT AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is intended for the use of taxpayers, customers with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Airport Authority Business Office, 157 N. State Street, Caro, Michigan 48723, or by telephone at 989-673-2849.

## BASIC FINANCIAL STATEMENTS

# TUSCOLA AREA AIRPORT AUTHORITY

## Statement of Net Assets

June 30, 2007

### ASSETS

#### CURRENT ASSETS:

Cash and equivalents	\$ 62,262
Accounts receivable - net	7,869
Inventory	36,527
Total Current Assets	<u>106,658</u>

#### CAPITAL ASSETS:

Fixed assets	4,341,273
Less: Accumulated Depreciation	<u>(887,515)</u>
Capital Assets, net	<u>3,453,758</u>

#### **TOTAL ASSETS**

**\$ 3,560,416**

### LIABILITIES & NET ASSETS

#### CURRENT LIABILITIES:

Accounts payable	\$ 2,079
Accrued sales tax	863
Current maturities of long-term debt	35,810
Total Current Liabilities	<u>38,752</u>

#### NONCURRENT LIABILITIES:

Notes payable - long-term	<u>51,675</u>
---------------------------	---------------

#### TOTAL LIABILITIES

90,427

#### NET ASSETS:

Invested in capital assets - Net of related debt	3,366,273
Unrestricted	<u>103,716</u>

#### Total Net Assets

3,469,989

#### **TOTAL LIABILITIES & NET ASSETS**

**\$ 3,560,416**

The accompanying footnotes are an integral part of the financial statements.

# TUSCOLA AREA AIRPORT AUTHORITY

## Statement of Revenue, Expenses, and Change in Net Assets

	<u>June 30, 2007</u>
OPERATING REVENUE:	
Gas sales	\$ 63,002
Jet fuel	9,794
Hangar rentals	35,051
Concession agreement	8,000
Miscellaneous income	<u>2,196</u>
Total Operating Revenue	<u>118,043</u>
OPERATING EXPENSES:	
Contract Employees	12,995
Operating supplies	10,525
Contracted services	11,180
Telephone	2,244
Insurance	15,282
Heat, light & power	6,614
Maintenance & miscellaneous	4,288
Bad Debts	2,112
Depreciation	151,211
Fuel purchases	<u>37,440</u>
Total Operating Expenses	<u>253,891</u>
OPERATING INCOME (LOSS)	<u>(135,848)</u>
NON-OPERATING REVENUE (EXPENSES):	
Contributions from members and other units	67,715
Donations	362
Interest Income	371
Interest expense	<u>(5,987)</u>
TOTAL NON-OPERATING REVENUE (EXPENSES)	<u>62,461</u>
NET INCOME (LOSS) - Before capital contributions	(73,387)
CAPITAL CONTRIBUTIONS	<u>668,837</u>
NET INCOME (LOSS)	595,450
NET ASSETS - JULY 1	<u>2,874,539</u>
NET ASSETS - JUNE 30	<u>\$ 3,469,989</u>

The accompanying footnotes are an integral part of the financial statements.

# TUSCOLA AREA AIRPORT AUTHORITY

## Statement of Cash Flows

	<u>June 30, 2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Charges and rentals	\$ 113,670
Cash paid to Contract employees	(12,995)
Cash paid to suppliers	<u>(110,128)</u>
Net cash provided by (used in) operating activities	(9,453)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Principal payments on debt	(34,250)
Interest paid	(5,987)
Capital expenditures	(642,785)
Contributions from members	67,715
Contributed Capital	668,837
Donations	<u>362</u>
Net cash used in capital and related financing activities	53,892
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest earned on investments	<u>371</u>
Net cash provided by investing activities	<u>371</u>
<b>NET INCREASE (DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>	44,810
<b>CASH &amp; CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>17,452</u>
<b>CASH &amp; CASH EQUIVALENTS AT END OR YEAR</b>	<u><u>62,262</u></u>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>	
Cash and investments	62,262
Total cash and cash equivalents	<u><u>\$ 62,262</u></u>

Supplemental Cash Flow Information - Capital contributions amounting to \$668,837 were received from both the federal government and the State of Michigan during 2007, and was recorded as additions to property, buildings, equipment, and Authority revenue.

The accompanying footnotes are an integral part of the financial statements.



Reconciliation of operating loss to net cash from operating activities:

	<u>June 30, 2006</u>
Operating income (loss)	\$ (135,848)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	151,211
(Increase) decrease in assets:	
Accounts receivable	(4,373)
Inventory	(18,807)
Increase (decrease) in liabilities:	
Accounts payable	(1,336)
Accrued expenses	<u>(300)</u>
Net cash provided by (used in) operating activities	<u>\$ (9,453)</u>

**TUSCOLA AREA AIRPORT AUTHORITY**  
Notes to the Financial Statements  
June 30, 2007

**NOTE 1 – DESCRIPTION OF TUSCOLA AREA AIRPORT AUTHORITY ORGANIZATION:**

**REPORTING ENTITY:**

The TAAA (Authority) was incorporated in 1993 under the provisions of Act 206 of the Public Acts of 1957, as amended by Act 410 of the Public Acts of 1978, and by Act 312 of the Public Acts of 1982.

The municipal corporations that created the Authority include the Villages of Caro, Cass City and Kingston as well as the Townships of Almer and Elkland, all in the County of Tuscola, State of Michigan.

The purpose of this Authority is to exercise any and all powers necessary for the purpose of planning, promoting, acquiring, constructing, improving, enlarging, extending, owning, maintaining and operating the landing, navigational and building facilities of the Tuscola Area Airport, formerly known as the Caro Municipal Airport.

The Authority is governed under the direction of a board of as many directors as are appointed to it by member municipalities, as shall be determined from time to time, but not less than four (4).

The Board maintains its own accounting system; employs a manager; adopts rules, regulations, policies governing employees, property, and facilities; prepares an annual financial report; and adopts by-laws, policies, and procedures deemed necessary for conduct of business. The Authority is financed through grants and loans from Federal and State government, fees from users, contributions from governmental entities and other.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity", these financial statements present the Authority (the primary government). The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included. The Authority has no component units.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**BASIS OF PRESENTATION:**

The financial activities of the Authority are recorded in a single fund described as follows:

**Proprietary Fund:**

*Enterprise Funds* - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**TUSCOLA AREA AIRPORT AUTHORITY**  
**Notes to the Financial Statements**  
**June 30, 2007**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(Continued):**

**BASIS OF ACCOUNTING:**

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority applies all applicable GASB pronouncements. Additionally, the Authority follows all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless pronouncements conflict with or contradict GASB pronouncements. After November 30, 1989, the Authority only applies applicable GASB pronouncements.

These full accrual financial statements are reported using the economic resources measurement focus. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**INVENTORIES:**

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption are recorded as expenditures when consumed rather than when purchased.

**CAPITAL ASSETS AND DEPRECIATION:**

All assets are recorded at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets. Cost of maintenance and repairs are charged to expense when incurred. Capital assets are defined by the Authority with an initial individual cost of more than \$2,000 and an estimated useful life in excess of one year. Estimated useful lives, in years, for depreciable assets are as follows:

Land Improvements	20-40 years
Buildings	30-50 years
Equipment	5-20 years

**BUDGETARY PROCEDURES:**

Budgetary procedures are established pursuant to Act 312, P.A. 1982, which requires the Board to approve a budget for the Authority. The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to July 1, the budget is legally enacted through passage of a resolution.
2. Any revisions of the budget must be approved by the Board.
3. Formal budgetary integration is employed as a management control device during the year for the Authority.
4. The budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the Board during the year. Individual amendments were not material in relation to the original appropriations that were amended.
5. Significant violations of the uniform budgeting act were noted in depreciation expenses. The actual expenses exceeded budget by \$102,643

**TUSCOLA AREA AIRPORT AUTHORITY**  
Notes to the Financial Statements  
June 30, 2007

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):**

**REVENUE/EXPENSES:**

Operating revenues and expenses generally result from providing services. All other revenues and expenses are reported as non-operating.

**USE OF ESTIMATES:**

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 3 – CASH AND CASH EQUIVALENTS:**

**Interest rate risk.** In accordance with its investment policy, the Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Authority's cash requirements.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

**Concentration of credit risk.** The Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of June 30, 2007 all of the Authority's bank balance of \$63,410 was insured and none was exposed to custodial credit risk. Authority places its deposits with high quality financial institutions. Although such deposits exceed federally insured limits, they are, in the opinion of the Authority, subject to minimal risk.

**Investment policy.** The Authority has not adopted an investment policy as required by PA 196 of 1997.

**NOTE 4 – ACCOUNTS RECEIVABLE:**

Accounts receivable consist of the following:

	<b><u>JUNE 30, 2007</u></b>
Customer Receivables	\$12,975
Credit Card Receivable	144
	13,119
Less allowance for doubtful accounts	<u>( 5,250)</u>
Total	<b><u>\$ 7,869</u></b>

**TUSCOLA AREA AIRPORT AUTHORITY**  
Notes to the Financial Statements  
June 30, 2007

**NOTE 5 - CAPITAL ASSETS:**

A summary of changes in the Authority's capital assets follows:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance July 1, 2007</u>
Assets not being depreciated – land	\$ 248,445			\$ 248,445
Other capital assets:				
Land improvements	2,138,307	\$638,709		2,777,016
Buildings	1,042,739	4,074		1,046,813
Fuel Tank	2,880			2,880
Equipment	<u>266,119</u>			<u>266,119</u>
Subtotal	3,450,045	642,783		4,092,828
Accumulated depreciation:				
Land improvements	(486,327)	(97,805)		(584,132)
Buildings	(144,633)	(30,295)		(174,928)
Fuel Tank	(564)	(144)		(708)
Equipment	<u>(104,780)</u>	<u>(22,967)</u>		<u>(127,747)</u>
Subtotal	(736,304)	(151,211)		(887,515)
Net other capital assets	<u>2,713,741</u>	<u>491,572</u>		<u>3,205,313</u>
Net capital assets	<u>\$2,962,186</u>	<u>\$491,572</u>		<u>\$3,453,758</u>

Depreciation for the fiscal year ended June 30, 2007 amounted to \$151,211.

**TUSCOLA AREA AIRPORT AUTHORITY**  
**Notes to the Financial Statements**  
June 30, 2007

**NOTE 6 – CHANGES IN LONG-TERM DEBT:**

The long-term debt of the Authority may be summarized as follows:

	<u>BALANCE</u> <u>6/30/06</u>	<u>ADDITIONS</u> <u>(REDUCTIONS)</u>	<u>BALANCE</u> <u>6/30/07</u>
Installment purchase contract payable to a bank, due in monthly installments of \$2,468 over 180 months at 6.25%. Proceeds were used to erect an airplane hangar. No formal security agreement was drawn up.	\$ 96,819	\$(24,250)	\$72,569
Note payable dated December 23, 1997 to Village of Caro due in full in 7 years at 2.5% per annum. Interest is accrued and paid annually. Proceeds used for working capital. Debt is unsecured.	<u>24,916</u>	<u>(10,000)</u>	<u>14,916</u>
TOTAL LONG-TERM DEBT	<u>\$121,735</u>	<u>\$ 34,250</u>	87,485
LESS: CURRENT PORTION			<u>(35,810)</u>
LONG-TERM PORTION			<u>\$51,675</u>

The annual requirements to amortize long-term debt outstanding at June 30, 2007 is as follows:

<u>YEAR ENDING</u> <u>JUNE 30,</u>	<u>TOTAL</u>
2008	\$35,810
2009	32,387
2010	<u>19,288</u>
TOTAL	<u>\$87,485</u>

**NOTE 7 – RISK MANAGEMENT:**

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, contract employee injuries, unemployment benefits, as well as medical and workman's compensation benefits provided to contract employees. The Authority has purchased commercial insurance for fleet equipment and tort claims, certain property and equipment damage and theft.

Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

**TUSCOLA AREA AIRPORT AUTHORITY**  
Notes to the Financial Statements  
June 30, 2007

**NOTE 8 – CONTRIBUTED CAPITAL:**

For fiscal years ended June 30, 2005 and prior Contributed Capital equity account existed to account for funds provided by the federal Government and State of Michigan, to the Authority, to purchase buildings and equipment. Depreciation on buildings and equipment purchased with State and Federal Funds was charged against this account.

Effective for fiscal years beginning July 1, 2005, and for all subsequent years, all State/Federal Capital Grants are recorded as revenue on the Statement of Revenues, Expenses and Changes in Net Assets. For the year ended June 30, 2007 \$668,837 of State/Federal Capital Grants were recorded as revenue.

Contributed Capital balances as of July 1, 2005 has been restated.

**NOTE 9 - OPERATING LEASES:**

The Authority leases a tractor under operating lease agreements that expire in three months. Lease expense amounted to \$505. At June 30, 2007, future lease payments under such leases are as follows:

June 30, 2008

\$1,514

**NOTE 10 – CONCESSION AGREEMENT:**

For the mutual benefit of the flying public, the Tuscola Area Airport Authority "The Authority" and a Developer "the Developer" entered into a concession agreement for the building of a Hangar Building. The Authority is the sole owner of a parcel of property (the "Airport Property") on which the Authority operates an airport for the use of the public (the "Airport").

Whereas, it is the intent and purpose of the Authority to grant and create a "concession at a public airport," as these terms are used in Act 189 of 1953, to benefit the traveling public and to provide facilities and services that might not otherwise have been available to the traveling public at the Airport Property. The concession agreement was reviewed by the Indianfields Township assessor and the Michigan Department of Treasury. It was the opinion of both that the Airport Authority and "the Developer" will not pay any property taxes on the building, or land on Airport Authority property.

The Airport Property is open for such use, or such other hours as shall be specified by the Authority, and that such facilities and services are available at rates which are reasonable, given the Authority's purpose in creating the concession and recognizing that such rates must be sufficient to encourage The Developer as the concessionaire to invest the time and money in creating and operating such a concession operation, which concession operation will not be in any way subsidized by the Authority. The Developer shall bear full responsibility for the repair, replacement and maintenance of all buildings and any improvements, additions, and alterations to such buildings on the Concession Area. Any new construction will require the approval of the Authority.

The Authority desires to retain The Developer to develop, manage and operate the Airplane Hanger Project on the Concession Area, to operate related concessions thereon, including providing space to the public for airplane storage and/or parking, and The Developer desires to obtain such rights from the Authority; pursuant to and under the terms of this Concession Agreement, the Authority will grant The Developer the right to develop, use and operate the Airplane Hanger Project on the Concession Area. The operating revenue generated from hangar rentals and income from Airport Hangar constructed by The Developer is for the sole use of The Developer. The Authority granted The Developer the right to occupy and manage the Concession Area for a term of 10 years, commencing 5 business days after the issuance of the occupancy permit for the New Facilities. The Airport Authority and The Developer will review the agreement at the end of the 10 year period for possible renewal.

**TUSCOLA AREA AIRPORT AUTHORITY**  
Notes to the Financial Statements  
June 30, 2007

**NOTE 10 – CONCESSION AGREEMENT, (Continued):**

Compensation for the rights granted to The Developer is \$72,000 which is payable to the Airport Authority in 9 annual installments of \$8,000 each. The first payment is due on 5/1/07 and on that date each succeeding year thereafter until paid in full.

**NOTE 11 – SUBSEQUENT EVENT:**

The Authority received a \$100,000 loan from the Michigan Aeronautics Commission for construction of a new maintenance hangar. This loan is payable over 10 years at \$12,391 due in August of each year. It bears interest of 4.1 % per annum. The new maintenance hangar will provide improved plane maintenance facilities to Tuscola Area Airport Authority customers. The total project will cost approximately \$160,000.



## OTHER SUPPLEMENTAL INFORMATION

# TUSCOLA AREA AIRPORT AUTHORITY

## Statement of Revenue, Expenses, and Changes in Net Assets - Budget and Actual Year Ended June 30, 2007

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE- FAVORABLE (UNFAVORABLE)
OPERATING REVENUE:				
Gas sales	\$ 68,000	\$ 62,736	\$ 63,002	\$ 266
Jet fuel	8,495	9,795	9,794	(1)
Hangar rentals	41,400	35,226	35,051	(175)
Concession agreement	8,000	8,000	8,000	-
Miscellaneous income	250	2,896	2,196	(700)
Total Operating Revenue	126,145	118,653	118,043	(610)
OPERATING EXPENSES:				
Contract Employees	12,995	12,995	12,995	-
Operating supplies	3,600	7,959	10,525	(2,566)
Contracted services	18,000	11,500	11,180	320
Telephone	2,350	2,045	2,244	(199)
Insurance	15,706	15,282	15,282	-
Heat, light & power	8,000	6,300	6,614	(314)
Maintenance & miscellaneous	9,900	1,525	4,288	(2,763)
Bad Debts	-	-	2,112	(2,112)
Depreciation	30,066	48,568	151,211	(102,643)
Fuel purchases	59,000	56,000	37,440	18,560
Total Operating Expenses	159,617	162,174	253,891	(91,717)
OPERATING INCOME (LOSS)	(33,472)	(43,521)	(135,848)	(92,327)
NON-OPERATING REVENUE (EXPENSES):				
Contributions from members and other local units	71,000	67,714	67,715	1
Donations	550	-	362	362
Interest income	1,700	571	371	(200)
Interest expense	(6,215)	(5,988)	(5,987)	1
TOTAL NON-OPERATING REVENUE (EXPENSES)	67,035	62,297	62,461	164
NET INCOME - Before capital contributions	33,563	18,776	(73,387)	(92,163)
CAPITAL CONTRIBUTIONS	12,555	46,094	668,837	622,743
NET INCOME (LOSS)	\$ 46,118	\$ 64,870	595,450	\$ 530,580
NET ASSETS - JULY 1			2,874,539	
NET ASSETS - JUNE 30			\$ 3,469,989	

The accompanying footnotes are an integral part of the financial statements.



Gary R. Anderson, CPA  
Jerry J. Bernhardt, CPA  
Thomas B. Doran, CPA

Robert L. Tuckey, CPA  
Valerie Jamieson Hartel, CPA  
Jamie L. Peasley, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

October 31, 2007

To the Board of Directors  
Tuscola Area Airport Authority  
Caro, MI 48723

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tuscola Area Airport Authority as of and for the year ended June 30, 2007, which collectively comprise Tuscola Area Airport Authority basic financial statements and have issued our report thereon dated October 31, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Tuscola Area Airport Authority internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement in the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiency described as 2007-1 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, the significant deficiency described above as 2007-1 we consider to be a material weakness.

Board of Directors  
Tuscola Area Airport Authority  
October 31, 2007

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tuscola Area Airport Authority financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Tuscola Area Airport Authority in a separate letter dated October 31, 2007.

Tuscola Area Airport Authority responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Tuscola Area Airport Authority response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of directors, management and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

October 31, 2007

To the Board Directors  
Tuscola Area Airport Authority  
Caro, MI 48723

## Schedule of Findings and Responses

### Findings considered material weaknesses

#### **Finding 2007-1**

##### Criteria:

Effective for the year ended June 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

##### Condition:

After considering the qualifications of the accounting personnel of Tuscola Area Airport Authority, we believe that the personnel have the abilities to maintain the day-to-day bookkeeping of the Authority, but they do not have the qualifications and abilities to generate financial statements, including required footnotes, in accordance with accounting principles generally accepted in the United States of America.

##### Cause:

The staff of the authority does understand all information included in the annual financial statements; however, we assist in preparing the financial statements and related footnotes.

##### Effect:

We assist management with the external financial reporting responsibility to ensure their financial statements are accurate.

##### Recommendation:

We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a material weakness as defined in Statement on Auditing Standards #112.

Client Response: We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.

**ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.**  
Certified Public Accountants



Gary R. Anderson, CPA  
Jerry J. Bernhardt, CPA  
Thomas B. Doran, CPA

Robert L. Tuckey, CPA  
Valerie Jamieson Hartel, CPA  
Jamie L. Peasley, CPA

October 31, 2007

To the Board of Directors  
Tuscola Area Airport Authority  
Caro, Michigan

Dear Board Members:

In planning and performing our audit of the financial statements of Tuscola Area Airport Authority as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements, will not be prevented or detected by the authority's internal control.

Our consideration of internal control over financial reporting and internal control over compliance was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

The following comments relate to certain of the authority's accounting, financial and administrative policies and procedures that we observed during the course of our audit. These matters are not considered control deficiencies or material weaknesses as defined by professional standards.

**New Auditing Standards**

Recently, 10 new auditing standards have been released and are effective, or will become effective for your June 30, 2008 year-end. In reviewing the new standards, they will have an impact on our overall audit approach. The trend is to perform audit procedures utilizing more of a risk based approach. One area that will continue to be emphasized is your internal controls.

**Segregation of Duties**

Due to the limited number of people, many critical duties are combined and given to the available employees. To the extent possible, duties should be segregated to serve as a check and balance and to maintain the best control system possible. We recommend the authority segregate duties whenever possible.

We appreciate the opportunity to be of service to the authority. The cooperation extended to us by your staff throughout the audit was greatly appreciated. We look forward each year to continuing our relationship with Tuscola Area Airport Authority. Should you wish to discuss any item included in this letter further, we would be happy to do so.

This communication is intended solely for the information and use of management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Anderson, Tuckey, Bernhardt & Doran, P.C.*

Anderson, Tuckey, Bernhardt & Doran, P.C.  
Certified Public Accountants